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GOVERNMENT OF INDIA

BUDGET 1963-64

FINANCE MINISTER'S SPEECH

28th February, 1963.

Sir,

I rise to present the Budget for the year 1963-64. For a number of years now the annual Budget has been framed primarily with reference to our plans for development. The year that is now drawing to a close has witnessed the emergence of yet another challenge to us as a nation; and much of what I have to say this evening will relate necessarily to the new situation that confronts us in regard to the defence of our country.

2. I shall, therefore, not dwell at any length upon economic trends and developments in the current year. These have been set out fairly fully in the Economic Survey which is being circulated separately. I would, however, like to touch upon those aspects of the current economic situation which have a bearing on our tasks during the coming year.

3. Honourable Members would recall that shortages in the basic sectors of the economy, particularly in regard to the supply of power, transport, coal and steel, were a source of concern during the first year of the current Plan period. It was in the light of these shortages that the Budget for 1962-63 had made provision for a sizable increase in Plan outlay. During the course of the year, programmes of development in these vital sectors were reviewed carefully so as to ensure accelerated and coordinated development of the economy as a whole and I am happy to say that there has been a significant improvement in the availability of coal, power, steel and transport over the past year. This trend will be strengthened further in the months to come as programmes now in hand begin to get completed. Some of our major public sector projects have made further progress. The Bhakra Dam has been completed and substantial additions to power capacity have been made from the Rihand and Hirakud projects. The public sector steel plants are now producing to near capacity. Industrial production as a whole has continued to grow and during the first half of the year, it was 7.2 per cent higher than in the corresponding part of 1961-62. We shall have to improve upon this performance in the coming years, particularly in view of the demands of the present Emergency and to this end, both the public and the private sectors must play their part.

4. Agricultural supplies during the year were not uniformly satisfactory. As the 1961-62 crop was no higher than the crop in the preceding year, prices, particularly of food-grains, increased between March and August 1962 and there was an increase of 6.1 per cent in the general index of whole-sale prices during this period. To keep prices in check a number of steps were taken. Monetary policy was geared to an orderly increase in the cost of credit (as well as to a restraint on speculative tendencies. With a view to stimulate agricultural production and to give the agriculturist the confidence that if he stepped up production, he would not lose by a fall in the prices, minimum prices for wheat and procurement prices for rice were announced, the ceiling price for cotton was

further raised and measures to sustain jute prices at remunerative levels have been strengthened. It is gratifying to note that the general index of wholesale prices for the month of January 1963 averaged 126 as against 127.5 at the beginning of the Third Five-Year Plan. Foodgrains output during the current season is expected to be better than the previous one. Even so, we shall have to redouble our efforts to increase agricultural production if the rate of growth of the economy is to be accelerated and the general stability of prices, which has on the whole been a welcome feature of the past two years, is to be preserved. In these efforts, measures to increase the production of rice and of items such as cotton and oil-seeds deserve special emphasis on account of their important bearing on the cost of living and the balance of payments.

5. The one sector of our economy which has been the cause of the greatest concern to me throughout the year is our external payments position. The summer of 1962 witnessed a sharp deterioration in our foreign exchange reserves. The foreign assets of the Reserve Bank, which were already drawn upon heavily during the earlier years, declined further from Rs. 129.7 crores at the end of March 1962 to Rs. 97 crores by the end of June. We had, therefore, to make further cuts in import quotas already announced and impose severe restrictions on foreign travel as well as to enter into a stand-by arrangement with the International Monetary Fund. Improvement in export earnings and larger reimbursements under aid have staved off further pressure on reserves over the past few months and on February 15, 1963, the foreign assets of the Reserve Bank stood at of Rupees 105 crores. But a level of reserves only a little above the legal minimum at the height of the favourable export season cannot be contemplated with equanimity.

6. Turning to the budgetary and fiscal developments during the current year, the revenue originally estimated at Rs. 1380.93 crores will, according to latest indications, go up to just over Rs. 1500 crores. Of the improvement of over Rs. 119 crores in revenue, Rs. 73.70 crores occurs under the three principal heads. Customs revenue will go up by about Rs. 24 crores due mainly to larger imports of machinery, which we welcome as they reflect an acceleration of our developmental effort, and of kerosene, diesel and other oils, which clearly are a cause for concern in our foreign exchange situation. The increase of Rs. 31.67 crores under Union Excise Duties is due to the progressive increase in the production and clearances of a number of excisable commodities, notably sugar, iron and steel products and motor spirit. Better yield from taxes paid in advance and larger collections at source on dividends, interest and salaries account for an improvement of Rs. 18.20 crores under Corporation and Income taxes. Of the rest of the improvement, the major increases are under Debt Services due mainly to larger recovery from States and under the three self-balancing items of receipts from iron and steel surcharge, P.L. 480 Grants and Emergency Risk Insurance, which are transferred to the respective funds by provision in the expenditure estimates.

7. Expenditure for the current year is also expected to go up from Rs. 1381.65 crores to Rs. 1522.31 crores. The biggest element in this increase is the step-up in the expenditure on Defence Services, to which this House gave its unqualified approval when within weeks of the wanton aggression on our borders, it voted supplementary grants of Rs. 95 crores. The revenue expenditure on Defence is now expected to go up to Rs. 451.81 crores, which is Rs. 108.44 crores higher than the original estimate.

8. Civil expenditure, on the other hand, shows a relatively small increase of Rs. 32.22 crores over the original estimate. The principal item responsible for this increase is the funding of receipts relating to the three self-balancing items, to which I have just referred and which account for an increase of Rs. 28.5 crores. With higher revenue from Union Excise Duties the States' share will go up by Rs. 10.55 crores. The policing of border areas will require an additional provision of Rs. 6.25 crores. These increases will be partly counter-balanced by savings of Rs. 1.87 crores under Debt Services and Rs. 11.48 crores under the group-head 'Social and Developmental Services' excluding the provision for the transfer of surcharge on iron and steel which is one of the self-balancing items just mentioned.

9. The net effect of these changes is to increase the revenue deficit from the nominal figure of Rs. 72 lakhs originally estimated to Rs. 22.06 crores. Considering that for Defence alone we have had to provide Rs. 108 crores more than the original estimate, the resultant position of the revenue budget for the year cannot be said to be unsatisfactory.

10. Turning to the Capital Budget, excluding the adjustment for the transfer of assistance from the United States to the Special Development Fund, which is

notionally treated as capital expenditure, the current year's budget provided Rs. 592 crores for capital outlay. The corresponding figure now estimated is Rs. 593 crores. The increase of a crore of rupees is the net result of a large number of variations. The Defence capital outlay will go up by Rs. 20 crores. A better tempo of execution will necessitate additional provision of Rs. 21 crores for Railways, Hindustan Steel and the Heavy Engineering Corporation. These increases will, however, be offset by savings under numerous heads of which I would mention Rs. 14 crores for food purchases, Rs. 5 crores for Oil and Natural Gas Commission, Rs. 4 crores each for the National Coal Development Corporation, Farrakka Barrage and Border Roads and Rs. 2 crores for the Fertiliser Corporation.

11. In addition to direct capital outlay just mentioned, the original estimates provided Rs. 453 crores for loans to States and Rs. 136 crores for loans to other parties including local bodies, Port Trusts and public sector enterprises. These are now estimated to go up to Rs. 523 crores and Rs. 147 crores respectively.

12. The bulk of the excess of Rs. 70 crores under loans to States is attributable to the grant of *ad hoc* loans to seven State Governments to clear their overdrafts with the Reserve Bank. Despite the grant of substantial assistance from the Centre for financing their Plan and non-Plan outlays and the larger share of Central taxes and grants accruing to them as a result of the Third Finance Commission's award, some of the States had overdrawn their account with the Reserve Bank. While agreeing to clear their overdrafts, I had to stipulate that the States must impose tight financial discipline, raise additional resources and keep their expenditures within their means. I trust the States will ensure that a similar situation is not allowed to arise in future.

13. Our borrowing programme shows a shortfall of Rs. 20 crores in Small Savings which will be more than made up by the sale of National Defence Bonds introduced after the Emergency. The receipts from P. L. 480 deposits and foreign loans will be lower than expected by Rs. 30 crores and Rs. 78 crores respectively. As mentioned earlier, the revenue deficit will go up by Rs. 21 crores and loans to States and other parties will be more by Rs. 81 crores. The deterioration of Rs. 210 crores will be offset to the extent of Rs. 60 crores by improvement under several heads, of which Rs. 47 crores is attributable to the receipts on account of the National Defence Fund and Rs. 9 crores to the Emergency Risk Insurance.

14. The net effect of all these variations will be to increase the overall deficit from the original estimate of Rs. 90 crores to Rs. 240 crores. It is not unlikely that the actual budgetary deficit for the current year would be some-what smaller than what I have just indicated. But the fact remains that despite the improvement in revenues and the sizable contributions to the National Defence Fund and the National Defence Bonds after the onset of the Emergency, the overall deficit would show a large increase over what was anticipated. The shortfall under Small Savings and the larger ways and means assistance to some of the States reflecting their financial weakness are matters of particular concern. Honourable Members, I am sure, would agree that although prices have remained reasonably stable over the past two years, there is little room for complacency in regard to the size of the deficit might safely incur over the years to come.

15. The paramount consideration in framing the Budget for 1963-64, as I mentioned at the outset, is the need to build up the defence potential of the nation. The House would be glad to know that I propose to provide Rs. 887 crores for Defence next year as against the Revised estimate of Rs. 505 crores and the Budget estimate of Rs. 376 crores in the current year. At the same time, I propose to provide Rs. 1226 crores for Plan outlay of the Centre, including assistance to the States, as against Rs. 1107 crores provided in the Budget for the current year. It has become in recent months a rather oft-repeated statement that defence and development are vitally interlinked. But this is one of those truths which do not become any the less true for being repeated often. The investments which we have already set in train and for which foreign assistance is already assured must be brought to fruitful completion as early as possible. And this consideration alone would require a significant increase in Plan outlay next year. The Emergency has created new needs. It would not be prudent, therefore, to provide for the paramount claims of defence by sacrificing the claims of development. Taking defence and development, together, therefore, the Budget provision for the next year would show an increase of Rs. 610 crores over the Budget estimates this year.

16. At this stage I should like to refer to certain changes introduced in the form of the Demands for Grants with the approval of the Estimates Committee.

decision to give separate details of the Demands for Grants has had the effect of making the has now been agreed with the the Demands which give details, which are intended primarily for be replaced by two new schedules. ion and the staff employed under Demands for Grants also include a .penditure. Arrangements will also y copies of Parts III and IV of the r Departmental use. These arrange- ie Demands in a more concise form ant information which is of interest

anges made in the presentation of e provision for the three Services separately. Following the practice mbine the Demands for the three the usual details. The combined rvices at the current year's level various emergency measures. The r these changes which have been

l of taxation, I am budgeting for iture of Rs. 1852·40 crores result- account.

an improvement of Rs. 85·48 Excises are expected to go up me and Corporation taxes would Interest receipts account for an as will be from Hindustan Steel, Rs. 8·43 crores from Railways. goods and factories, if continued 27 crores. We have also decided rowings, the Railways and the ath effect from the coming year, d accordingly the rate will be will give an additional Rs. 4·43 resent rates be partly offset by venue due to the imposition of '70 crores under iron and steel and increase of Rs. 2·68 crores

1852·40 crores next year, d Rs. 1143·89 crores under nates, the Civil expenditure e expanding volume and cost Rs. 34·21 crores under Debt st Rs. 11·89 crores more due The increase in their share ain mainly the increase of eous Adjustments. While would be more by Rs. 27 d P. L. 480 Grants would ly. The remaining heads increase of Rs. 9·84 crores, Bank for the withdrawal res.

ated at Rs. 827 crores, year's revised require- ase of Rs. 106 crores. crores for Hindustan purchases including rores for Posts and s each for Atomic crores for Drugs

22. The Budget next year prov. Rs. 100 crores as their share of it by the National Development Co and State Governments next year Rs. 175 crores. An item of special during the rest of the Plan period giving financial assistance to students terms will be offered to those who

23. As I mentioned earlier, provision for a total expenditure of Rs. which Rs. 196 crores will be on Rs. crores as Capital outlay including to provide Rs. 38 crores and Hindustan Rs. 37 crores from their own resources as assistance to the States of which Rs. and Rs. 306 crores in the Capital Budget crores from their own funds. Thus the amount to Rs. 750 crores, which with it give a total Plan outlay of Rs. 1651 compared with the current year's budget provision for Plan outlay next year would be Rs. 7500 crores for the plan period for the current year and the actual expenditure of the First year of the Plan.

24. For the next year, the estimated market borrowing including Rs. 100 crores from the States and Governments. The receipts from Small Industries Rs. 90 crores. Credit has also been taken for Rs. 90 crores from P.L. 480 deposits from the moneys formerly deposited with

25. I may now summarise the overall existing level of taxation and expenditure. Rs. 267 crores. Capital outlay will amount to Rs. 716 crores, and debt service of Rs. 2041 crores is expected from internal and external borrowings, Rs. 90 crores from investment of P.L. 480 deposits under the Debt and Deposit heads, leaving

26. Honourable Members, I am sure the gap of Rs. 454 crores entirely uncovered. the manner and extent to which this gap is being met point which I had made when introducing in a planned economy taxation policy sources for the Exchequer but it is also the wider objectives of promoting the rising imbalances between different sectors. It is my intention to re-emphasise some of the points brought out of the brief review of the economy already given.

27. First and foremost, there is the pace of development. The growing demand has to be met except on the basis of an extraordinary greater part of the responsibility for the public sector; and when I refer to the private industry and labour, but also to the public sector, I shall have to make every possible effort to speed up our agriculture and industry, both big and small, to the task in hand. At the same time, the fact that gives the magnitude of the task is to the extent that we are prepared to provide ordinary incentives and rewards. The Government, more particularly by a speedy implementation of the programmes already in hand, so that the funds be available within the shortest possible time. It is available to cover the foreign exchange. It would be false economy to allow fiscal measures to be a way of the quick implementation of these measures or in the private sector.

25. The second thing which must be evident from what I have said earlier is the seriousness of our foreign exchange position. To the pressures on our balance of payments arising from the requirements of development and a growing burden of servicing foreign debt, we must now add the even more urgent requirements of Defence. Honourable Members would, I am sure, like me to take this opportunity of expressing the gratitude of this country to friendly foreign countries, particularly the United States and Britain, who rushed to our assistance with military equipment and supplies in the hour of need. But the fact that we are being helped liberally with external resources to finance our development and our defence is a reason for us not to slacken but to redouble our efforts to mobilise our own resources to the utmost. Not only, therefore, has the budget to provide the rupee resources we need, but it must also help in securing a better balance on external account. We have put the most stringent restrictions on imports already and a stage has been reached when further restrictions would have a serious detrimental effect both on production and on exports. There is little room left now for drawing further upon our already depleted reserves. Greater availability of assistance for financing imports of materials and components has, therefore, been particularly helpful to us in the present stage of our development when our own industries can deliver increasing amounts of capital goods, with better availability of imported raw materials and components. While it is only proper that we should continue to seek rational changes in the nature and scale of external assistance, we, on our part, have to strain every nerve to increase our export earnings and to keep our requirements of civilian consumption within the strictest limits of austerity. As Honourable Members are aware, we have launched on a new gold policy in the country to plug an important source of leakage in our foreign exchange earnings. Drastic and far-reaching as this policy is, it represents only the kind of action that we must be prepared to take on a number of fronts if we are to achieve a position of viability in our external accounts.

29. To the already stringent measures for restricting the quantum of imports, we must now, I feel, add more decisive restraints of a fiscal nature. It is essential for the successful operation of direct controls that they should be reinforced by appropriate budgetary measures and there is a strong case for diverting to the Exchequer a larger share of the profits made by importers, whether on the direct sale of the items imported, or on the sale of products using imported materials and equipment. Both Customs Duties and Excise Duties have a part to play in this regard.

30. Somewhat similar considerations apply to export promotion. We have not only to remove such handicaps as our export industries face as a result of fiscal levies which we impose to meet our domestic requirements, but also to provide positive financial incentives to our nascent export industries to enable them to secure a fair share in foreign markets. The principle of protecting domestic industry in developing countries by import duties has long been accepted as a sound economic doctrine supported by the so-called "infant" industry argument. What is true of domestic industries competing with foreign industries in home markets is equally true of domestic export industries in developing countries that have to compete with well-established exports of more advanced countries. In logic, as indeed in practical necessity or international ethics, there would seem to be no difference between import duties to protect domestic industry and financial incentives to export industries seeking to compete on a more equal footing in overseas markets.

31. I have drawn attention to some of the basic economic considerations that we must bear in mind even as we face the formidable task of providing for a sharp and sizable increase in Defence outlay next year. The overall gap of Rs. 454 crores arises almost entirely from the increase in Defence outlay. Earlier in the year, it was my hope and expectation that having raised taxation in the first two years of the Plan to meet nearly 80 per cent of the target for the Third Five-Year Plan, it would be possible to provide for all essential requirements this year without any significant additional taxation. But the new threat on our borders has made it necessary for me to come to the House with proposals for a much higher order of taxation. We cannot allow the present cessation of active fighting on our frontiers to lull us into a sense of complacency. No matter how great the effort, the resources that are needed to defend the honour and integrity of the motherland must be raised. And as we prepare for this challenge, we cannot plunge the country into the chaos of inflation by unbridled deficit financing.

32. I am deeply conscious of the fact that the scale of taxation which I am about to propose is going to impose an unprecedented burden. It has been my endeavour to ensure that the additional burden is distributed as equitably as possible among the different sections of the community. Honourable Members would appreciate that our requirements are so massive that we cannot possibly meet them

without expecting a contribution even from the poorer sections of the community. The enormity of the challenge which confronts us demands nothing less than a measure of sacrifice from every citizen. It is all the more imperative, therefore, that considerations of equity and social justice, which we have accepted as an integral part of our way of life, should receive even more earnest attention now than ever before.

33. With all the effort at additional taxation I am about to propose, the leed for voluntary restraint on the part of the people would also remain as great as ever. The response of all sections of the people in the present Emergency has been truly magnificent. And I have every confidence that the same spirit of willing co-operation and self-restraint will be sustained while the security of the nation is in danger

34. By far the largest expenditure in the country is incurred by Governments at the Centre and the States. There cannot be any question that economy and efficiency in public expenditure are the very heart of the matter in mobilizing resources. We have taken a number of steps at the Centre to effect economies in several directions. But essentially, the task of achieving the utmost economy in public expenditure is not merely a question of cutting or reducing some items of expenditure or of laying down this or that rule of procedure. What we need is more performance with less expenditure of resources in every sphere of public activity; and what such economy through efficiency requires is an attitude of mind—a spirit of vigilance and responsibility—on the part of all those who are entrusted with the expenditure of the people's money, be they engineers, army officers, contractors, workers, civil servants or indeed Ministers. Here again, the task is one which is for all of us to perform incessantly and not just that which anyone of us can lay down once and for all.

35. I now come to my proposals for raising additional resources. Before turning to the specific measures I am proposing, I will outline briefly the broad scheme, I have kept in view, in formulating these proposals.

- (a) In view of the paramount need for avoiding any resurgence of inflationary pressures, I have endeavoured to restrict the over-all deficit in the Budget to what I consider to be a reasonably safe limit in the present circumstances.
- (b) Not all the additional resources, however, are proposed to be raised by additional taxation. My proposals include a comprehensive scheme for compulsory savings, the proceeds of which will be shared between the Centre and the States.
- (c) Among the measures of additional taxation, I propose to raise a substantial sum from Customs Duties. The additional Customs levies are designed to ease the pressure on the balance of payments and to encourage domestic production of import substitutes.
- (d) I propose to supplement the present Corporate taxation by a Super Profits-tax. I also propose to raise income-tax revenue by levying a progressive surcharge on incomes after tax. Income-tax payers will also participate in the compulsory savings scheme. My proposals include a number of changes which are intended to expedite tax-collection, to curb the growth of perquisites and other unnecessary expenses at the cost of the Exchequer and to rationalise some of the deductions that are at present allowed in Corporate taxation as well as the Wealth tax.
- (e) The changes in taxation on Corporations provide for a measure of incentive to exports which are also sought to be encouraged by a budgetary contribution for market development and by a reduction in the export duty on tea.
- (f) Changes in Excise Duties are in two parts: first, a selective increase in duties to restrain consumption especially where it aggravates the balance of payments, and second, surcharges of a varying order on a large range of commodities but excluding the major items of mass consumption and a number of basic intermediate goods.
- (g) I propose also to ask for powers to vary Excise and Customs duties within limits to provide a measure of flexibility in either direction in response to changing circumstances.
- (h) Finally, my proposals include revision of Postal rates.

Customs

36. Keeping in view this broad scheme, I propose to increase import duties on a number of articles including mineral oils, machinery, iron and steel products, raw cotton, rubber, palm oil, cinema films, tobacco, dyes, hardware, electrical and other instruments and motor vehicle parts. Our imports of kerosene and diesel oil have been rapidly rising and have to be restricted till the growing internal production matches demand. I propose to increase excise duty on most petroleum products substantially and the import duty will be correspondingly increased. The general rate of duty on machinery is being raised from 15 per cent to 20 per cent. The concessional rate of 10 per cent applicable to certain types of essential machinery is proposed to be correspondingly raised to 15 per cent. Our machine building industries have made rapid strides in the recent past and we want to encourage the establishment of further capacity for the production of machinery in the country. The changes, which I am proposing, will be in keeping with this objective. The duty on iron and steel products is also proposed to be raised generally by 5 per cent. I propose to levy an import duty of 10 naye paise per kilogram on raw cotton and to increase the duty on raw rubber from 10 per cent to 20 per cent. On unexposed film, the increase is from Rs. 6.60 to Rs. 12 per 100 linear metres and I propose to restore the duty on exposed film to the statutory rate including the countervailing duty. The duty on palm oil is being raised by 10 per cent which will still be less than half the statutory rate. I also propose to increase the duty on certain varieties of tools excluding machine tools and agricultural implements from 50 per cent to 60 per cent, and on hardware in general from 75 per cent to 100 per cent. The duty on certain motor vehicle parts is proposed to be raised from 25 per cent to 50 per cent. This will provide a greater incentive for indigenous production. I also propose to increase the duty on electrical and non-electrical instruments by 10 per cent. As a result of these and other changes which I need not detail here, there will be an additional revenue of Rs. 65.98 crores in 1963-64.

37. I also propose to levy a general surcharge of 10 per cent on all import duties. This surcharge will be calculated without taking into account the countervailing duties. So far as the latter are concerned, there will be increased revenue on account of changes in excise, of which I shall speak a little later. Further, since an increasing number of our Excise Duties are on an *ad valorem* basis, it is proposed that the corresponding countervailing duty should be calculated on the landed cost inclusive of basic import duties and not on the c.i.f. price of the product. The total additional revenue next year from the import surcharge and countervailing duties has been estimated at Rs. 26.79 crores.

38. Consistently with my objective of discouraging imports and encouraging exports, it is proposed to abolish the export duty on tea but to discontinue the refund of Excise Duty on it, which is being allowed at present on its export. This will mean a loss of Customs revenue of Rs. 5.38 crores. The total effect of all the changes on the Customs side will be an increase in revenue of Rs. 87.39 crores in 1963-64.

39. Honourable Members would appreciate that enhancement of import duties on this scale is designed to have a decisive impact on the demand for imports and on the indigenous production of competing items. At a time when our imports consist essentially of developmental goods, an extensive increase in import duties cannot be undertaken lightly. We have also to bear in mind that an expanding volume of world trade, based on liberal trade policies all round, has a vital bearing on our efforts to achieve a viable position in our external accounts. If I have thought it necessary, despite these considerations, to resort to enhancement of Customs Duties on such a large scale, it is because of the fact that our imports have grown a great deal over the past few years and we cannot continue to rely so heavily on the generosity of our friends for financing imports which will inevitably increase even further with the growth of our economy.

Central Excise

40. I have referred earlier to the need for restricting the use of petroleum products. In order to achieve this, I propose to increase the basic Excise Duty on motor spirit from Rs. 325.10 to Rs. 410, on refined diesel oil from Rs. 305.25 to Rs. 390, on superior kerosene from the existing basic rate of Rs. 79.88 to Rs. 210 and on inferior kerosene from Rs. 64.20 to Rs. 160, all per kilo litre. There will be a corresponding increase in the duty on vaporising oil from Rs. 283.95 to Rs. 370 per kilo litre and on diesel oil not otherwise specified from Rs. 48.40 crores in 1963-64. I am aware that the increase in duty on kerosene, of Rs. 48.40 crores in 1963-64. I am aware that the increase in duty on kerosene,

which is intended to keep a check on the growth of demand for this item which has to be largely imported, will affect poorer sections of the community, particularly in the rural areas. I propose to offset this partly by removing the Excise Duty on unprocessed vegetable non-essential oil, including the ordinary edible oils. This will mean a loss of revenue of Rs. 10.25 crores per annum. I, however, propose to increase the rates of duty on vegetable product, paints and varnishes and soap, so that the duty hitherto paid on the oil content of these articles will be approximately covered by the increase in the rates of duty on them. It is also proposed to increase the rates of duty on cigarettes on a graded scale by amounts varying from 70 naye paise per thousand on the cheapest to Rs. 8.70 per thousand on the costly cigarettes. I also propose to increase the rate of duty on unmanufactured tobacco other than flue cured and not used for the manufacture of cigarettes, biris etc., by 40 naye paise per kilograms. I also propose to increase duty on copper by Rs. 200 per tonne in order to restrict its use. It is also proposed to increase the duty on strawboard where the production is more than 1500 tonnes per annum. In order to restrict the control on re-rollers of steel whose number is large and to facilitate enforcement of Excise Duty on iron and steel products, it is proposed to revise the structure of duty on this item without any effect on revenue. A duty of Rs. 30 per tonne will be levied on blooms, billets, slabs, steel bars, tin bars and hoe bars in addition to the duty at ingot stage but further duty will not be charged on bars, rods, wires, forgings, structurals and other products if they are made from semi-finished steel which has paid this duty of Rs. 30. The duty on plates, sheets, hoops, strips and skelp will also be similarly reduced by Rs. 30 per tonne. These changes in the rates of Excise Duty will yield an additional revenue of Rs. 60.28 crores next year, out of which Rs. 9.60 crores will accrue to the States as their share.

41. I do not propose to levy any new excise this year. But in addition to the changes in rates for the few items I have just mentioned, I propose to levy selective surcharges on the Central Excise Duty on several articles with a view to raising revenue exclusively for the Centre which has to carry the burden of Defence. There will be a surcharge of 10 per cent on the duty on synthetic dyes, printing and writing paper, jute manufactures, glass other than plate and sheet glass, chinaware and porcelainware, tinplate, internal combustion engines, electric storage batteries, electric bulbs, motor spirit and diesel oils. There will be a surcharge of 20 per cent on tea, coffee, unmanufactured tobacco, cigarettes, vegetable product, paints and varnishes, soap, cosmetics, plastics, cellophane, tyres, rubber products, paper other than printing and writing paper, cotton yarn of less than 35 counts, woollen fabrics, art silk fabrics, cement, plate and sheet glass, electric motors, dry electric batteries, electric fans, motor vehicles other than motor cars, films and aluminium. There will be a surcharge of 33 1/3 per cent on cigars, rayon and woollen yarn, cotton yarn of 35 counts or more, silk fabrics, refrigerators and air-conditioning machinery and parts thereof, wireless receiving sets, radiograms and motor cars. The surcharges have been so arranged as to bear lightly on selected intermediate goods and rather heavily on luxury items consumed by the more well to do classes. As for articles which enter into common consumption, such as sugar, cotton fabrics, footwear, matches and cycle parts as well as patent and proprietary medicines, there will be no change in the excise duty. Most of the basic, intermediate and other products such as soda ash, caustic soda, acids, gases, plywood, asbestos, cement products, pig iron, steel ingots, iron and steel products, zinc, furnace oil, asphalt and bitumen, petroleum products not otherwise specified and electric wires and cables are excluded from the scope of the surcharges.

42. The total additional revenue as a result of the surcharges will be Rs. 55.93 crores. For the reason I have already mentioned, it has been proposed in the Finance Bill that the States will not share in the surcharge. The net additional revenue in 1963-64 to the Centre on the Central Excise side as a result of the changes in the rates and the surcharges will be Rs. 106.61 crores.

43. I share the anxiety of the House about the price effect of the changes in Excise Duty. I should, therefore, like to mention the exact price effect on items of common consumption on the assumption that the entire duty is passed on to the consumer which in actual fact should not be the case. As the duty on ordinary edible oils has been removed their prices should go down. In the case of matches, sugar and footwear, where there has been no change in duty there should be no increase in prices at all. The surcharge on cotton yarn and the import duty on raw cotton will mean increase only of a fraction over a naya paisa per square metre in the cost of cotton fabrics and should not call for an increase in their prices also. Increase in the duty on tea is of 3 to 9 naye paise per kilogram, varying according to its quality, while that for vegetable product is 6 naye paise per kilogram. Increase in washing soap is of the order of 1.5 naye

paise per bar of 45 totals. The main increase which is in kerosene will be 10 naye paise per bottle of superior kerosene and 7 naye paise for that of inferior kerosene. In order to ensure that there is no profiteering through unwarranted price increases, suitable orders are being issued under the Defence of India Rules.

44. In our present position, it is essential to have also the authority to be able to act at short notice in order to check profiteering and to regulate resources and demand. Government has already powers to reduce Customs or Excise Duty. In the Finance Bill, it is also proposed to take power to enhance these duties or to impose a Customs Duty within specified limits in the course of the year. The limits proposed are 10 per cent *ad valorem* for goods subject to Excise Duty and that rate or 25 per cent of the existing statutory rate whichever is higher for import duty. Given powers to vary Excise and Customs Duties within limits, it should be possible to adjust fiscal policy promptly in response to changing circumstances.

Direct Taxes

45. In the field of direct taxes, I propose to levy an additional surcharge for the purpose of the Union rising progressively from 4 per cent to 10 per cent on the incomes after tax, of individuals, Hindu undivided families, unregistered firms and associations of persons. A part of this additional liability can be discharged through a compulsory deposit, as I shall explain later. It is also proposed to levy a surcharge for the purpose of the Union of 20 per cent on the income-tax payable by registered firms. Additional yield of Rs. 45 crores is expected from these measures in 1963-64. In regard to the existing surcharges of income-tax aid the special surcharge, I propose to abolish the present higher exemption limits of Rs. 15,000 for certain Hindu undivided families and Rs. 7,500 for individuals, unregistered firms etc. The revenue effect of this measure will be small but it will simplify the structure of these surcharges by removing the complicated system of marginal relief involved in these higher limits.

46. With a view to speeding up collections, I propose to introduce a new provision in section 141A of the Income-tax Act to provide that assessee who pay the tax assessed on them or pay the tax due on the basis of their returns before the 1st January of the relevant assessment year will be entitled to a credit for 1 per cent of the tax so paid by them. Correspondingly, it has been provided that assessee who do not pay the tax on the basis of their returns by the 31st December of the assessment year shall be liable to pay interest at 2 per cent per annum on the tax found due on the basis of their returns. Sections 209 and 210 of the Income-tax Act are also being amended to secure that the amount of advance tax demanded by the Income-tax Officer, on the basis of the last completed regular assessment of the assessee, could be revised by him if the income determined in a provisional assessment for a later year is higher. It is also proposed to restrict, in the case of companies, the deduction for expenditure on account of remuneration and perquisites to Rs. 60,000 per annum for an individual employee. Honourable Members will, I am sure, appreciate that a proliferation of perquisites and high salaries for the privileged employees is one of those phenomena of modern corporate life which cannot be allowed to remain unchecked. These measures to expedite tax collection and to put a curb on high salaries and perquisites are expected to yield a revenue of Rs. 12 crores in 1963-64.

47. I also propose to amend the provisions in Sections 139 and 220 of the Income-tax Act relating to the charging of interest for delay in submission of returns and for non-payment of tax in due time, to provide for a reduction of the amount of interest in consequence of any reduction of the tax assessed under an order on appeal, reference or revision. Regarding charging of interest for delay in filing of returns, it is also proposed to make a provision enabling income-tax authorities to waive or reduce the interest in cases of hardship where the return was delayed due to factors beyond the control of the assessee.

48. It is also proposed to make some amendments to the provisions of the Income-tax Act relating to the recovery of arrear tax dues through officers of the State Governments, functioning as Tax Recovery Officers, with a view to removing certain difficulties and to expedite recovery of arrears.

49. I propose to withdraw the existing exemption up to Rs. 25,000 allowed for jewellery in section 5 of the Wealth-tax Act for the purpose of computing the net wealth of assessee. At a time when we have launched on a new gold policy to reduce the glamour for gold, an exemption for jewellery in Wealth-tax would be inappropriate. The additional revenue expected from this measure is about Rs. 40 lakhs.

50. The 10-year Treasury Deposit Certificates and the 12-year National Plan Savings Certificates which are exempt from Wealth-tax have been replaced by

10-year Defence Deposit Certificates and 12-year National Defence Certificates. It is, therefore, proposed to include the new Certificates also in the category of exempted assets under the Wealth-tax Act.

Exports

51. Honourable Members will recall the concession in Income-tax given to exporters last year. I propose to continue it this year also. In addition, I propose to add to the incentive for manufacturers. This will apply to manufacturers who are engaged in any of the industries listed in the First Schedule to Industries (Development and Regulation) Act, 1951 other than those mentioned or may be notified and who export their goods themselves or where the goods manufactured by them are exported by the first purchasers from them. Such manufacturers will be allowed in addition to the existing tax rebate, a further rebate of income-tax and super-tax on a sum equivalent to 2 per cent of the value of such exports made hereafter, subject to the limit of the tax otherwise payable by them on their total income.

52. I have pointed out earlier the importance and the necessity of helping our "infant" industries to overcome the difficulties and obstacles which they encounter in making themselves known in overseas markets. If we are to achieve the kind of increase in our export levels, which we need to get over our chronic foreign exchange difficulties, we must rely on our new industries to turn increasingly to export markets. A provision of Rs. 3 crores has been made in the budget for 1963-64 for developing new markets including publicity, survey, research and promotion of exports. Out of this, suitable sums will be placed at the disposal of Export Promotion Councils and other similar bodies to help in the vital task of export promotion.

Super Profits-tax

53. So far I have applied myself to practicable increase in the existing instruments of taxation. They are, however not enough either to raise adequate resources or to secure an equitable distribution of the burden we have to shoulder.

54. In our system of corporate taxation, there is no correlation between the rate of tax and the percentage of profits. This shortcoming needs to be remedied especially at the present juncture when the corporate sector like the rest of the community must bear its share of the increased national responsibility. Instead of revising the present system, I propose to super-impose on it a Super Profits-tax. That tax will operate when the income of a company after deducting the Income-tax and Super-tax payable by it exceeds 6 per cent of its capital and reserves except for such amounts of reserves which have been allowed as deduction in computing the total income for Income-tax. The rate of tax will be 50 per cent when that income is above 6 per cent but not above 10 per cent of the capital and 60 per cent on incomes above 10 per cent. It is hoped that this tax will act as a disincentive to excessive profits and will help to keep down the prices.

55. It is proposed to disallow expenses on commission, advertisement and entertainment to the extent that there is reason to believe that they are inflated for reducing profits artificially.

56. The Super Profits-tax is expected to yield a revenue of about Rs. 25 crores in 1963-64.

Compulsory Savings

57. Apart from taxation, we have relied on the voluntary savings of the people to meet our growing requirements of development. Voluntary savings and contributions have an important part to play in the present Emergency also. In view however, of the sharp increase in our requirements, it would be appropriate to introduce a comprehensive scheme of compulsory saving to supplement the effort by way of additional taxation and voluntary savings. Like taxation, compulsory saving will restrain demand in the immediate future; whereas unlike taxation, it would provide an earning asset to the people and generally help in inculcating the saving habit in the country.

58. Accordingly, I am introducing a Bill which will enable Government to provide for compulsory saving on the part of different sections of the people on appropriate scales, subject to certain maxima provided for in the Bill. These maxima are: 50 per cent of the basic land revenue on 1959-60 assessment for

agriculturists; 3 per cent of the annual rental value of property for property-owners in urban areas; 3 per cent of salary for employees who earn more than Rs. 1500 per annum but are not liable to income-tax; and other comparable rates for professional and other classes. In the case of income-tax payers whose residual income after payment of tax does not exceed Rs. 6,000, an amount equal to 3 per cent thereof and in the case of others having a higher amount of residual income, an amount equal to 2 per cent thereof will, on being deposited under the compulsory savings scheme, be deducted from the new additional surcharge payable by them. Of the total yield of Rs. 45 crores under the Union surcharge, already referred to, some Rs. 12 crores may, therefore, accrue as compulsory deposit. Deposits under the scheme will not be withdrawable for a period of five years and would carry simple interest at 4 per cent per annum.

59. Arrangements for collecting compulsory deposits are being worked out in co-operation with the States which will get a share in the proceeds of the scheme. Total collections under the scheme and its net contribution to additional resources are difficult to estimate; but on an approximate basis, total collections under the scheme might amount to between Rs. 65 crores and Rs. 70 crores. Pending arrangements for sharing the proceeds with the States, I am taking credit for a net increase in the Central resources of Rs. 40 crores by way of proceeds of compulsory savings, including Rs. 12 crores from income-tax payers.

60. The additional resources from all the direct levies proposed, including compulsory savings, would thus be Rs. 110.4 crores, of which Rs. 40 crores would be by way of compulsory savings, Rs. 33 crores by way of Union surcharge on income-tax, Rs. 25 crores by way of the super-profits tax and Rs. 12.4 crores by way of measures of rationalisation and reduction or elimination of exemptions.

Postal Rates

61. As the House is aware, the Postal and Telegraph branches of the Posts and Telegraphs Department have generally been working at a loss. Many of the services we provide on the postal side are unremunerative. The average cost of post card to the Department is 8 nP, whereas we recover only 5 nP. The annual loss on post cards alone is over Rs. 3 crores. On registered letters we lose about Rs. 1½ crores. The Posts and Telegraphs services are being extended to remote areas by the opening of Posts and Telegraphs offices which are not remunerative. On all these considerations, it is proposed to raise the existing rate of 5 nP. for single and 10 nP. for reply post cards to 6 nP. and 12 nP. respectively. Local post cards as a separate category will be abolished. For book, pattern and sample packets, the rate will be increased from 8 nP. for the first 50 grams and 3 nP. for every additional 25 grams to 10 nP. and 5 nP. respectively. The rates on parcels will be increased from the existing charge of 50 nP. to 60 nP. for every 400 grams. The registration fee is proposed to be raised from 50 nP. to 55 nP. and the acknowledgment fee from 6 nP. to 10 nP. Certain other increases in the fees for certificate of posting, insurance, business reply permits and post box rentals are also being proposed. The additional revenue expected from the increase in the postal rates will be about Rs. 3.15 crores.

62. It is proposed to revise the inland telegram rates from 80 nP. for the first 8 words and 8 nP. for each additional word to one rupee for the first 10 words and 10 nP. for each additional word. The charges for greetings telegrams will be raised from 50 nP. for 6 words and 7 nP. for each additional word to 75 nP. for the first 8 words and 10 nP. for each additional word. The rates for express telegrams will be correspondingly doubled. The separate category of Local telegrams including greetings telegrams will be abolished. At present, the charge for registration of abbreviated telegraphic addresses varies with the period of validity of the registration. It is proposed to levy a uniform fee of Rs. 50 for a period of 12 months in future. These measures are expected to bring in Rs. 95 lakhs.

63. As regards trunk telephones, the concession on urgent calls during the period the concessional rates apply, will be reduced from 50 per cent to 25 per cent and the concession on priority calls during this period will be withdrawn. This will yield about Rs. 50 lakhs. The changes in postal, telegraph and telephone rates would in all yield Rs. 4.6 crores.

64. As the surplus of the Posts and Telegraphs Department, like the surplus of the Railways, after payment of the dividend to the General Revenues, is transferred for credit to its Renewals Reserve Fund, it will not have any net effect on the Revenue Budget. Credit for the transfers to the Railways and Posts and Telegraphs Funds has already been taken into account in arriving at the overall deficit.

Emergency Risks Insurance

65. I had said earlier that at present rates, receipts on account of Emergency Risks Insurance would amount to Rs. 36 crores in the coming year. As the premium for Emergency Risks Insurance is not meant to be a fiscal levy, it must vary from quarter to quarter depending upon an assessment of the risk. For the quarter commencing 1st April 1963 I propose to reduce the premia from 25 naye paise to 15 naye paise in respect of factories and other installations and from 15 naye paise to 10 naye paise for goods. This reduction for the quarter commencing 1st April 1963 would reduce receipts for that quarter from Rs. 9 crores to Rs. 6 crores. As the rates for the subsequent quarters cannot be decided upon at this stage, I am providing for the present for a reduction of Rs. 3 crores only in the receipts on account of Emergency Risks Insurance, that is for Rs. 33 crores against Rs. 36 crores indicated earlier.

State Resources

66. In mobilising resources for the coming year we have also to bear in mind the needs of the States for additional resources. In this connection, I have already introduced a Bill to amend the Central Sales-tax Act. The amendments proposed in it will yield a revenue of Rs. 22.5 crores in 1963-64, of which Rs. 1.5 crores will accrue to the Centre from Union Territories and Rs. 21 crores will accrue to the States. In a full year the yield to the Centre and the States will be Rs. 30 crores. As a result of the changes in Central Excise Duties, Rs. 9.60 crores will go as the States' share. They will also share in the Compulsory Savings Scheme. They will, thus have a substantial accretion to their resources in the next year as a result of the steps I have proposed. Notwithstanding this, the States would still need to tap in a major way the resources open to them. I have brought this to their notice in my discussions with the Chief Ministers and Finance Ministers of the States. While the burden of finding resources for the defence of the country rests heavily on the Centre, it is duty of the States to find larger resources to finance their part of the Plan.

67. The taxation proposals outlined by me would yield a total additional revenue of Rs. 275.50 crores. Of this, a sum of Rs. 9.60 crores will accrue to the States and the balance of Rs. 265.90 crores to the Centre, reducing the revenue deficit to Rs. 77 lakhs.

68. The Compulsory Savings Scheme is expected to bring in at the Centre an additional sum of Rs. 40 crores over and above the net realisations from Small Savings of Rs. 105 crores. The reduction in the rates of the Emergency Risks Insurance for the first quarter would reduce the credit to the Fund by Rs. 3 crores. Taking into account the amount to be realised by way of additional taxation and the net improvement of Rs. 37 crores in Capital receipts, the overall deficit would stand reduced to Rs. 151 crores, which will be met by expansion of treasury bills. Considering everything, it would not be unreasonable to expect that deficit financing of this order will not have any adverse effect on the economy.

Conclusion

69. This then is the sum total of my proposals for raising resources for defence and development next year—a total effort of Rs. 305.90 crores of which Customs Duties account for Rs. 87.39 crores, direct levies, including compulsory saving, on individuals and companies for Rs. 110.40 crores and Excise Duties and inter-State Sales-tax for the balance of Rs. 108.11 crores. It has not been an easy thing for me to contemplate that the proposals I am called upon to make for my fifth budget add up in their magnitude and range to very much more than the sum total of my proposals during the previous four budgets. It would certainly not be easy for the people to accept these proposals without a measure of privation on their part. The questions that each of us individually and all of us as a whole have to consider, however, are: Can we afford not to meet the challenge of the Chinese aggression? Would it be prudent to try and meet this challenge by forsaking our aspirations for development? Or indeed, would it be wise not to face it squarely and unleash instead the forces of inflation? It is because I have been unable to answer these questions in the affirmative that I have ventured to submit the proposals that I have. I have endeavoured, in doing so, to be fair and constructive to the best of my ability. I only hope that in time, the determination of the people in meeting the challenge that confronts us would make it possible for us to turn our energies even more vigorously to the pursuit of peace, freedom and progress with justice, to which this nation is dedicated.

SUMMARY OF

(In lakhs of Rupees)

REVENUE	Budget 1962-63	Revised 1962-63	Budget 1963-64
Customs	2,07,82	2,31,65	2,21,20 +87,39* }
Union Excise Duties	5,22,02	5,53,69	5,83,96 +1,06,61* }
Corporation Tax	1,78,45	1,87,50	1,96,00 +31,00* }
Taxes on Income	68,65	77,23	81,05 +39,00* }
Estate Duty	12	12	12
Taxes on Wealth	9,00	9,00	9,00 +40* }
Expenditure Tax	10	20	10
Gift Tax	85	95	95
Other Heads	15,83	17,75	18,37 +1,50* }
Debt Services	1,67,51	1,76,49	2,17,05
Administrative Services	6,11	6,75	6,76
Social and Developmental Services	35,29	43,37	31,61
Multipurpose River Schemes, etc.	36	39	45
Public Works, etc.	4,02	4,11	4,38
Transport & Communications	6,30	6,67	7,46
Currency & Mint	69,53	70,56	73,68
Miscellaneous	24,56	25,62	24,93
Contributions and Miscellaneous Adjustments	24,41	25,20	27,66
Extraordinary items	40,00	63,00	81,00
TOTAL—REVENUE	13,80,93	15,00,25	15,85,73 +2,65,90* }

*Effect of Budget proposals

FINAL ESTIMATES

(In lakhs of Rupees)

EXPENDITURE

	Budget 1962-63	Revised 1962-63	Budget 1963-64
Collection of Taxes, Duties and other Principal Revenues	22,58	23,07	23,83
Debt Services	2,47,90	2,46,03	2,80,24
Administrative Services	70,31	76,39	88,28
Social and Developmental Services	1,63,24	1,57,26	1,55,40
Multipurpose River Schemes, etc.	1,57	78	1,96
Public Works, etc.	21,88	23,71	20,94
Transport & Communications	8,75	8,75	9,79
Currency & Mint	20,23	22,96	17,24
Miscellaneous :			
Pensions	10,47	10,64	10,68
Expenditure on Displaced Persons	9,60	9,60	8,41
Other Expenditure	89,38	88,20	91,89
Contributions & Miscellaneous Adjustments :			
Grants to States	2,13,54	2,10,24	2,17,55
States Share of Union Excise Duties	1,14,36	1,24,91	1,28,07
Other Expenditure	3,07	3,35	3,42
Extraordinary items	41,40	64,61	86,19
Defence Services (Net)	3,43,37	4,51,81	7,08,51
TOTAL—EXPENDITURE	13,81,65	15,22,31	18,52,40
Deficit (—)	(—)72	(—)22,06	(—)2,66,67 }
Surplus(+)			(+)2,65,90* }

*Effect of Budget Proposals

